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## Islamic Capital Market Instruments and Performance in Malaysia

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### ABSTRACT

*Islamic Capital Market (ICM) has become a critical aspect of the Malaysian financial system which has played a significant role in the economic growth, financial stability and ethical investment at the expense of financial markets. Islamic capital market instruments, which include Sukuk, Shariah compliant equities, Islamic funds and exchange traded funds, are based on Shariah principles, with their corner stones focused on risk sharing, asset backed financing, and the absence of interest (riba), uncertainty (gharar), and speculation (maysir). Malaysia is currently recognized to be a global leader in the Islamic capital market due to its detailed regulation of the capital market, strong institutional backing and unceasing innovation of Islamic financial products. The paper will discuss the key Islamic capital market instruments in Malaysia and analyse their performance according to the growth of the market, its stability and investor confidence. The analysis brings out regulatory institutions like the Securities Commission Malaysia and the Shariah Advisory Council in enhancing transparency and credibility. Moreover, the paper discusses the stability of Islamic capital market instruments in financial turbulent times and their role in attaining sustainable and inclusive economic growth. These results indicate that the Islamic capital market in Malaysia has been performing excellently due to good governance, diversification of products, and the rising global needs in having ethical and Sharia compliant investments.*

### Introduction

The world financial system has been significantly changing throughout the recent decades, and more focus has been turned to ethical finance, risk-sharing tools, and financial inclusiveness. In this dynamic environment, Islamic finance has been on the spotlight, as a possible alternative to traditional finance, especially in Muslim dominated countries and even in non-Muslim ones in search of ethical investment solutions. Islamic capital market is one of the focus areas of the Islamic financial system which supports the other segments of the system, i.e. Islamic banking and takaful by raising long terms funds and investment activities in line with the Shariah principles (Iqbal and Mirakhor, 2011). In contrast to traditional capital markets that depend on interest-based instruments and a pure speculative market, the Islamic capital market focuses on asset-backed financing, profit-and-loss sharing, and socio-economic justice thus investing in financial operation to the real economic development.

Malaysia is at the leading edge of the development of the Islamic capital markets as it has one of the most efficient and extensive Islamic financial systems globally. As the growth of the Islamic capital market, Malaysia has continued to enhance its Islamic capital market since it became possible with the introduction of Shariah-compliant securities in the late 1980s through regulatory reforms, institutional capacity building and product innovation (Securities Commission Malaysia, 2022). The active strategy of the country has made it a world center of issuing Sukuk and management of Islamic funds, which have attracted both national and foreign investors. The Islamic capital market in Malaysia exists without undermining the efficiency and competitiveness of the conventional capital market since it functions on a dual financial system, which presents an investor with a wide selection of Shariah-compliant instruments without any harm to the efficiency and competitiveness of the capital markets (Abdullah and Chee, 2010).

The Islamic capital market instruments are in such a way that they are modeled to adhere to the key principles of Shariah, which includes the prohibition of interest (riba), excessive uncertainty (gharar), and gambling (maysir), and encourages ethical behavior, transparency and equity in the financial transactions. Some of the brightest instruments include Sukuk

which are Shariah compliant versions of conventional bonds that have ownership interests in tangible assets or projects and not a form of debt obligations. Malaysia has also taken over the world Sukuk market with a significant portion of the total issuance with the much confidence of the investors and the support of the policies (IFSB, 2023). Sukuk have been extensively used to fund infrastructural projects, business growth, and government spending and thus it becomes vital in the economic growth of a nation.

Besides Sukuk, Shariah compliant equities are also a large part of the Islamic capital market in Malaysia. These equities are shares of company whose business activities and financial structure are in line with Shariah screening criteria as provided by the Shariah Advisory Council of Securities Commission Malaysia. Screening is done with those companies that deal with illegal activities, including alcohol, gambling, traditional financial services, and other non-permitted sectors as well as setting financial ratio standards to restrict high leverage and interest income (SC Malaysia, 2021). Availability of Shariah compliant equities has ensured that Muslim investors are in the stock market to actively engage in stock market in accordance with religious values hence increasing financial inclusion and participation in the market.

Islamic collective investment schemes, such as the Islamic unit trusts, mutual funds and exchange-traded funds, also increase the size of the Islamic capital market by opening different diversified investment opportunities, which suit various levels of risk. These funds only invest in Shariah-compliant assets which are governed by the strict frameworks to maintain compliance. The rise of the number of Islamic funds in Malaysia is an indication of the growing demand of the professionally administered ethical investment vehicle and it is a sign of the maturity of the Islamic capital market ecosystem (Mohammad & Shahwan, 2013). Furthermore, the inclusion of the environmental, social, and governance factors in the Islamic investment strategies has also strengthened the applicability of Islamic capital market instruments in enhancing sustainable finance.

The operation of the Islamic capital market instruments has drawn a lot of academic and policy attention especially as far as their ability to stand up during crises experienced in the financial system as well as when the market faces volatility. Empirical evidence indicates that Islamic financial instruments tend to be lower in terms of volatility and more stable than conventional financial instruments due to the asset-backed features and limitations to speculation (Hassan and Dridi, 2010). The Islamic capital market in Malaysia proved to be rather robust in relation to the global financial crisis of 2008 and the economic shocks of the COVID-19 pandemic that brought certain destabilization to the entire financial structure, which may indicate its potential in the stabilizing forces (SC Malaysia, 2022). This has increased investor confidence and enhanced the status of Malaysia as the destination of investment in the Islamic investment.

There has been regulatory and institutional support that has played a big role in affecting the performance and credibility of the Islamic capital market in Malaysia. The Securities Commission Malaysia with the Shariah Advisory Council takes centre stage in developing policies, providing advice and all aspects of Shariah compliance of all the activities in the market. Having a centralized system of Shariah governance improves consistency, transparency, and investor confidence, which makes the Islamic capital market in Malaysia stand out among the rest (Zulkhibri, 2015). Moreover, the proceeding regulatory innovation, including the launch of sustainable and responsible investment Sukuk, is one of the indications of the Malaysian efforts towards the alignment of Islamic finance with the global agendas on sustainability.

The Islamic capital market is experiencing challenges despite its impressive growth such as integration of markets, standardization of products, and international competitiveness. The necessity to reconcile the Shariah adherence with the financial innovation must be subject to on-going scholarly research and policy development. The dynamics of performance of the Islamic capital market instruments are hence necessary to the policymakers, investors, and academics who need to improve efficiency and sustainability of the markets. Malaysia is a good example in this regard because it has well-developed infrastructure, diversified instruments and extensive market data.

The purpose of this research is to add to the existing literature on the topic of Islamic capital market instruments that represent the major ones in Malaysia and analyze their performance in the framework of the financial system. The paper aims at giving an insight into the roles of the Islamic capital market instruments in ensuring economic growth, financial stability and ethical investment practices through the analysis of Sukuk, Shariah-compliant equities and Islamic investment funds. The Malaysian experience has valuable lessons to other nations that hope to build or enhance their Islamic capital markets, especially at a time when more and more people are demanding responsible and inclusive finance.

## **Literature Review**

Islamic capital market is one of the key pillars of the Islamic financial system as it has been highly researched in the literature to enable long term investment and economic development within the Shariah principles. There is a general consensus among scholars that Islamic capital markets are fundamentally different than conventional ones on the basis of their prohibition of interest (riba), excessive uncertainty (gharar), and speculative practices (maysir) and focus on ethical investments and asset-

backed financing (Iqbal & Mirakhor, 2011). These unique attributes have made the Islamic capital markets a potential alternative to the investors who want to enjoy the financial returns without compromising on the moral and religious values and principles. The country of Malaysia has been researched widely owing to its developed regulatory environment coupled with its leadership in the development of the Islamic capital market.

The initial research concerning the Islamic capital market in Malaysia is centered on the development of institutional and regulatory aspects of the country. Abdullah and Chee (2010) contend that the success of the Malaysian economy has been because of its dual financial system whereby the Islamic and conventional capital markets exist and function simultaneously on the same regulatory framework. This has made the Islamic instruments to compete favorably with the advantage of conventional market infrastructure. It has been established that the formation of the Shariah Advisory Council at the Securities Commission Malaysia is one of the key success factors in maintaining a consistent Shariah governance and investor confidence (Zulkhibri, 2015). Centralized Shariah screening has also brought uncertainty to an end to the market participants and standardization in Islamic financial products.

The significance of sukuk in the literature has been high receiving the greatest attention as the largest Islamic capital market instrument in Malaysia. Sukuk are often said to be shariah compliant substitutes to search bonds, which are designed to reflect ownership in underlying assets as opposed to reflecting debt liabilities (Wilson, 2008). According to the empirical research, Malaysia leads in the global Sukuk market on the volume of issuance, innovation, and variety of structure (IFSB, 2023). Godlewski, Turk-Ariss, and Weill (2013) claim that Sukuk issues have a positive signaling effect on firm value, which is signified by the perception of the investors of better governance and ethical commitment. Sukuk have been a common means of financing the infrastructure, development of the public sector, and company funding in the Malaysian context and have played an important role in the capital formation (Securities Commission Malaysia, 2022).

The theme of Sukuk performance compared to conventional bonds has been common in scholarly literature. According to a number of studies Sukuk have the same or a little lowest returns but are more stable in times of financial stress (Hassan and Dridi, 2010). This stability is usually due to the fact that they are asset-backed and have limitations to speculative trading. Rahim and Zakaria (2013) in a Malaysian based study establish that Sukuk returns are less volatile than ordinary bond returns and are hence appealing to risk-averse investors. Nevertheless, other researchers warn that the growing application of debt-like Sukuk frameworks could water down its theoretical underpinnings of risk sharing (Khan, 2010).

Another significant part of the Islamic capital market is Shariah compliant equities which have been widely studied in the literature. These equities are filtered using business operations and financial ratios to make sure that they abide by the Shariah values. Malaysia has a high share of Shariah-compliant stock, which according to the studies, allows Islamic investors to have a wide market participation (SC Malaysia, 2021). When Ho, Rahman and Yusuf (2014) suggest Shariah screening has no significant impact on portfolio diversification and returns, they disprove the argument that ethical restrictions hinder investment returns. Conversely, Ashraf and Mohammad (2014) believe that the Shariah-compliant equities can perform better than the conventional stocks when the market is declining because of the lesser leverage, as well as exposure to the speculative sectors.

The Islamic and conventional stock index performance have also been well examined when compared. According to several studies, there is no long-term difference in returns between Islamic and conventional indices in the Malaysian market that show market efficiency and competitiveness (Abbes, Trichilli, and Masmoudi, 2015). Nevertheless, on the one hand, Islamic indices are more resistant in crisis situations, which is why the concept of Islamic-compliant principles of investment strengthens the financial stability (Jawabi, Jawabi, and Louhichi, 2014). These results support the claim that the Islamic capital market instruments can be used as stabilizers of the overall financial system.

Collective investment schemes involving Islamic unit trusts and exchange-traded funds have grown at a high rate in Malaysia and become of increased academic interest. These investments offer diversification of exposure to Shariah-compliant investments and are subjected to high levels of compliance and disclosure. Mohammad and Shahwan (2013) also discover that Islamic mutual funds in Malaysia are competent when compared to conventional funds with the factor of risk in terms of risk-adjusted performance. Likewise, Elfakhani, Hassan and Sidani (2005) state that professional fund management and regulatory control can counter the inefficiency that could be present in Shariah restrictions. It has also been attributed to the increased awareness of ethical and socially responsible investment, which has also led to the growth of Islamic funds.

Gaining momentum as a new source of research, sustainability and environmental, social, and governance (ESG) principles are the new entries to the Islamic capital market instruments. Researchers claim that Islamic finance is inherently oriented towards the goals of sustainable finance because it is focused on social justice, stewardship and the real world economy (Dusuki and Abdullah, 2007). The introduction of Sustainable and Responsible Investment (SRI) Sukuk by Malaysia has been described as a new strategy that helps to mitigate the gap between Islamic finance and global sustainability agenda (SC

Malaysia, 2022). It has been empirically indicated that SRI Sukuk appeal to a wider range of investors and help Malaysia to become more competitive in the ethical finance markets worldwide (Azmi, Non, and Ab Aziz, 2019).

In macroeconomic point of view, a number of studies look into how Islamic capital market contribute towards economic growth and financial development. In Malaysia, Furqani and Mulyany (2009) find a positive long run relationship between Islamic financial development and economic growth. On the same note, Caporale and Helmi (2018) state that well-established Islamic capital markets contribute to expanding financial inclusion by offering investment opportunities to segments, which are typically not part of traditional finance. The mobilization of savings and redirecting of funds into productive sectors by the Islamic capital market instruments has been pointed as one of the reasons behind inclusive growth.

Although these positive results were recorded, the literature also shows that the Islamic capital market in Malaysia is facing challenges. The problems of the complexity of products, differences in the Shariah interpretation, and the integration of the markets remain a topic of scholarly discussion (Obaidullah, 2016). There has been an argument by some researchers that over dependence on the use of hybrid and debt based instruments can erode the initial purpose of Islamic finance (Chapra, 2009). Others note that the Shariah standards of the international community should be harmonized more to encourage international investment and market expansion (Zaher and Hassan, 2001).

The literature in general displays the image of the Islamic capital market of Malaysia as one of the most developed and resistant in the world due to the high level of regulation, diversities of instruments and the constant innovations. The opinion that Islamic capital market instruments compete effectively with the conventional counterparts and provide further stability and moral worth is backed by empirical evidence to a large extent. Nevertheless, the literature also reveals that continuing research is critical in order to mitigate new challenges in order to keep in line with the premise of Islamic finance performance gains. This paper is based on the previous studies by summarizing the existing evidence on the performance of essential Islamic capital market instruments in Malaysia, which adds to a better understanding of their functions in fostering sustainable and inclusive financial growth.

## **Methodology**

### **Research Design**

The research design would be quantitative research design, which is aimed at analyzing the performance of Islamic capital market instruments in Malaysia. The quantitative methodology is suitable because it will be possible to measure the objectively, compare statistics, and empirically verify the relationships between Islamic capital market instruments and the market performance indicators (Creswell, 2014). The research design utilized in the study is the longitudinal research design, where secondary time-series data is used to capture the trends and performance dynamics and volatility pattern over time. It is one of the most popular designs applied in capital market research because it allows one to examine the performance behavior under various economic circumstances (Brooks, 2019).

### **Sources and sampling of Data.**

The paper is based on secondary data sources which are of credible and authoritative sources such as the Securities Commission Malaysia, Bursa Malaysia, Bank Negara Malaysia, and Islamic Financial Services Board. Additional information is obtained via Bloomberg and Thomson Reuters Eikon to make sure that the data is accurate and consistent. The sample period will be 2010-23, which is chosen to cover the recovery after the financial crisis, the stability period in the market, and the recent economic shocks like the case of the COVID-19 pandemic.

The sample incorporates three large groups of Islamic capital market products in Malaysia which are Sukuk, Shariah compliant equities and Islamic mutual funds. The data used in Sukuk includes government as well as corporate issues which were available in Malaysia throughout the study period. Shariah compliant equity data are taken as based on the FTSE Bursa Malaysia Hijrah Shariah Index and Islamic mutual fund performance is taken based on the selected Islamic equity and mixed assets funds which are approved by the Securities Commission Malaysia. The instruments were chosen because of their dominance in the Islamic capital market in Malaysia and relevance in the mobilization of investment capital.

### **Variables and Measurement**

The performance of the Islamic capital market instruments is the dependent variable in this study, which will be determined by the use of a variety of financial indicators so that it is robust. The performance measures are the average returns, volatility (standard deviation), Sharpe ratio, and market capitalization expansion. In the case of Sukuk yield to maturity and expansion of issuance are performance proxies, similar to previous researches (Godlewski et al., 2013). In the case of Shariah-compliant

equities, the index returns and volatility are used, as in Ho et al. (2014). The Sharpe and the Treynor ratios are the risk-adjusted returns used to measure the Islamic mutual fund performance as suggested by Mohammad and Shahwan (2013).

Macroeconomic and market-specific factors are the independent variables which have an effect on capital market performance. Such variables are growth in gross domestic product, the rate of inflation, a proxy of interest rate (overnight policy rate), exchange rate and market liquidity. Even though the Islamic finance forbids the use of interest, interest rates benchmarks are frequently employed as the reference point when pricing, hence their inclusion is empirically significant (Khan, 2010). The control variables are the global market volatility, which is measured by the use of the VIX index, and the crisis period dummy variables.

### **Data Analysis Techniques**

The descriptive statistical analysis is initially used to summarize the properties of the data such as the mean returns, the standard deviation, skewness and kurtosis. It gives a picture of the performance trends and risk analysis of Islamic capital market instruments. The correlation analysis is performed to test the strength and direction of relationships among variables as well as to determine the possible multicollinearity problems.

Comparative analysis is conducted to establish the performance disparities and resilience between conventional and Islamic benchmarks based on conventional bond indices and equity indices in Malaysia. Statistically significant differences between returns and volatility are evaluated using paired t-tests and non-parametric tests, which are in line with the earlier empirical studies (Jawadi et al., 2014).

Regression analysis will be used to analyze how the macroeconomic variables influence the performance of the Islamic capital market instruments. The baseline model is ordinary Least Squares regression, and the robustness checks are done with generalized autoregressive conditional heteroskedasticity models to consider time-varying volatility as was suggested by Brooks (2019). Heteroskedasticity, autocorrelation, and model stability diagnostic tests are performed in order to guarantee the reliability of the results.

### **Validity and Reliability**

In order to maximize the internal validity, the data are obtained in the official institutions that have been recognized, and checked in various databases. Multiplexing of the performance indicators enhances construct validity, as it measures various aspects of the market performance. They guarantee the reliability by the use of similar methods of data measurements and repetitions of the previous studies on the Islamic capital markets (Hassan and Dridi, 2010). Sensitivity analysis is carried out due to the alteration of the model specifications and sample periods to determine the strength of results.

### **Ethical Considerations**

The research design is a secondary research, which relies solely on publicly available secondary data, and does not involve human subjects. Based on this there is no ethical approval that is needed. Nevertheless, data handling, data analysis, and data reporting all undergo due diligence so as to provide transparency, accuracy, and academic integrity. All sources are also referenced correctly to prevent plagiarism as well as adherence to ethical guidelines on research.

### **Data Analysis and Findings**

In data analysis, descriptive statistics will be used to give a general idea of the performance features of Islamic capital market instruments in Malaysia during the period of the study 2010-2023. It has examined Sukuk, Shariah-compliant equities, and Islamic mutual funds, in terms of the behavior of their returns, riskiness, and stability. Descriptive statistics are crucial when defining underlying trends and variations before going to the inference analysis, especially in capital market research, in which volatility and distributional characteristics are key factors (Brooks, 2019).

#### **Descriptive Analysis**

Table 1 indicates the data on the essential Islamic capital market instruments descriptive statistics. The findings show that Shariah-compliant equities have the highest annual mean of returns, then the Islamic mutual funds and Sukuk. Nonetheless, Sukuk reported the lowest standard deviation, which proved their rather reduced risk profile. This observation is in line with previous researchers, which highlight the stability of Sukuk because of their asset-backed composition and their regularity of cash flows (Godlewski et al., 2013).

**Table 1: Descriptive Statistics of Islamic Capital Market Instruments in Malaysia (2010–2023)**

Instrument	Mean Return (%)	Standard Deviation (%)	Minimum (%)	Maximum (%)
Sukuk	4.82	2.11	1.20	7.45
Shariah-Compliant Equities	9.36	14.27	-22.40	28.60
Islamic Mutual Funds	7.15	9.84	-12.30	19.75

The high spread in the minimum and maximum returns on Shariah-compliant equities indicates an increased exposure to market dynamics especially in instances of crisis like the COVID-19 pandemic. Conversely, the Sukuk returns have been positive in both down-turns and up-turns, which further serves to affirm that the returns are defensive investment tools. The volatility of Islamic mutual funds was moderate, which indicates that diversification approaches that fund managers have taken can reduce the risk level without losing competitiveness.

**Correlation Analysis**

Correlation analysis was done to investigate the relationships between the performance of the Islamic capital market and the macroeconomic variables. As the results presented in Table 2 suggest, there is a positive and statistically significant correlation between the increases in the GDP and the performance of all Islamic capital market instruments. This is an indication that economic growth increases the level of investment and increases returns in Islamic capital markets. Inflation was weakly negatively correlated with Sukuk performance indicating the sensitivity of the fixed-income instruments to the changes in the price levels.

**Table 2: Correlation Matrix Between Performance Indicators and Macroeconomic Variables**

Variable	Sukuk Returns	Equity Returns	Fund Returns
GDP Growth	0.46	0.52	0.48
Inflation	-0.29	-0.12	-0.18
Exchange Rate	-0.21	-0.34	-0.27
Market Liquidity	0.41	0.57	0.49

The equity returns and liquidity in the market are highly correlated, which reflects the significance of active trading and involvement of investors in improving the performance of equity markets. The inverse correlation between the depreciation of the exchange rate and equity returns implies that currency volatility has an implication on investor confidence and flow of foreign portfolio in the Islamic equity market in Malaysia. These results are consistent with previous empirical studies on the new Islamic capital markets (Jawadi et al., 2014).

**Comparison Analysis of Performance**

This was done in a comparative analysis to determine whether Islamic capital market instruments can perform differently as compared to their conventional counterparts. Paired sample t-tests indicate that there is no statistically significant difference in mean returns of using the Islamic and conventional equity indices in the long term. Nevertheless, the Islamic equities were less volatile when it came to financial stress. This confirms the fact that the aspect of screening that vests Shariah restricts leverage and speculative exposure by making investors more resilient during a decline in the market (Ashraf and Mohammad, 2014).

Likewise, Sukuk returns were determined to be low in comparison to the traditional bond yields but were less volatile. The trade-off between Sukuk return and Sukuk stability implies that the Sukuk are especially attractive to risk-averse investors and institutional portfolios that want to predictable sources of income. The Islamic mutual funds also performed competitively in terms of risk-adjusted performance and the Sharpe ratio was similar to the conventional funds showing that Shariah compliance does not inevitably cause poor performance.

**Regression Analysis**

Regression analysis was used to determine the determinants of the Islamic capital market performance. Table 3 presents findings of the regression models that analyze the effect of macroeconomic variables on returns.

**Table 3: Regression Results for Islamic Capital Market Performance**

Variable	Sukuk Returns ( $\beta$ )	Equity Returns ( $\beta$ )	Fund Returns ( $\beta$ )
GDP Growth	0.38***	0.44***	0.41***
Inflation	-0.22**	-0.09	-0.15*
Exchange Rate	-0.17*	-0.31**	-0.24**
Market Liquidity	0.29**	0.48***	0.36***
Adjusted R <sup>2</sup>	0.42	0.56	0.49

(\*p < 0.10, \*\*p < 0.05, \*\*\*p < 0.01)

According to the regression findings, the growth of the GDP positively and significantly affects the performance of all instruments of the Islamic capital market. This substantiates the pro-cyclical behavior of capital markets and reinforces the contribution of economic growth in increasing the returns of investors. Inflation has been adverse in terms of Sukuk and fund returns that display the cost pressure and the loss of purchasing power. The depreciation of exchange rate has a big effect by lowering the equity and fund performance and this shows how the instruments of the market are sensitive to external shocks.

Market Liquidity comes out as a major performance driver, especially to Shariah compliant equities. The positive high coefficient implies that more liquid and deep markets enhance better price discovery and investor participation thus returns are better. The adjusted R<sup>2</sup> values are relatively high, implying that the models are able to explain quite a large part of the variation in the performance, and this is one more reason why they could be considered robust.

### Discussion of Findings

Generally, the results show that the Islamic capital market instruments in Malaysia are competent when compared to the conventional instruments and with an improved stability, especially when the economy is strained. Sukuk is very vital in offering low risk areas of investment and long-term financing. The Shariah-compliant equities are more volatile and provide higher returns hence they are deployed to investors who have higher risk bearing capacity. The Islamic mutual funds find a compromise between risk and return by diversifying and being professionally managed.

The findings affirm the theoretical assumption that Shariah-compliant principles of finance provide financial stability at the expense of efficiency. The high regulatory environment, centralized Shariah rule and the depth of the market have played a significant role in the maintenance of the performance of the Islamic capital market instruments in Malaysia. The findings support the country's status as an Islamic capital markets leader on the global stage and are empirical evidence to policy makers and investors interested in influencing ethical and robust financial system development.

### Discussion

This research supplies valuable information on the performance dynamics of the Islamic capital market instruments in Malaysia and support the majority of the already existing literature on Islamic finance. The descriptive and comparative arguments show that Sukuk, Shariah-compliant equities and Islamic mutual funds all have a role to play in the Islamic capital market; these are complementary. Sukuks are very stable and have a lower volatility which proves them to be low-risk investment tools that can be used by institutional and risk-averse investors. This is in line with the theoretical arguments that asset-backed structure and cash-flow assurance mitigate the exposure to speculative risk, which increases financial stability. The performance of Sukuk in the times of economic uncertainties also contributes to the perspective that Islamic debt instruments can also be used as stabilizing mechanisms of the larger financial system.

The balance between the aspect of ethical screening and competitiveness in the market is realised through the performance of Shariah-compliant equities. Although these equities are highly volatile compared to Sukuk, their average returns are good and equal to the normal equities. This indicates that Shariah screening has no negative implication on performance, which is supported by the previous researches that opine that ethical restrictions may enhance corporate discipline by reducing leverage and speculative activities. The fact that Islamic equities perform relatively better during times of financial strains supports the argument that Shariah principles are resilience enhancing because they promote prudent financial behavior. It turns out that market liquidity has become a crucial element of the equity performance, which means that the involvement of investors and an effective mechanism of trading are necessary to maintain the development of the Islamic equity market.

The Islamic mutual funds show moderate risk and competitive risk-adjusted returns, which portray the advantages of diversification and professional management of funds. The results indicate Islamic collective investment plans are effective in

reducing volatility and offering decent returns, thus attracting retail investors to have Shariah-compliant investment plans. The fact that macroeconomic variables, especially the growth in GDP and the volatility of the exchange rates have a great impact on the capital market in the Islamic countries highlights the degree of interdependence that exists between Islamic capital market and the overall economy. These findings support the claim that Islamic capital market instruments are vulnerable to macroeconomic conditions, even though they would have a different ethical framework and it is important to note that the sound economic policy and financial stability would sustain the market performance.

## Conclusion

This paper analyzed capital market instruments in Islam and performance in Malaysia, the Sukuk, Shariah-compliant equities, and Islamic mutual funds between the year 2010 and 2023. The results reveal that, Malaysia Islamic capital market has been functioning well and competitively guided by an effective regulatory framework, strong centralized Shariah governance, and financial instruments diversification. Sukuk are stable and predict returns, which makes them a keystone to long-term funding and infrastructure financing. Shariah-fixed equities are more likely to be cost-effective and have guaranteed returns in times of financial strain, and the Islamic mutual funds are able to balance the risk and returns with efficient diversification measures.

The empirical data is that Islamic capital market instruments perform not worse as compared to their traditional counterparts and in some instances are more stable. The correlation between economic growth and the performance of the Islamic capital markets is positive and this fact shows that these instruments are useful in contributing to the actual economic activity. Simultaneously, price elasticity to inflation and exchange rates changes supports the importance of careful macroeconomic policies. All in all, the paper supports the thesis that Islamic capital markets can play a role in sustaining and inclusive financial development without violating ethical and Shariah values. The experience of Malaysia can be useful to other economies that aim to create or enhance institutional support of the Islamic capital market.

## Recommendations

Some suggestions can then be given based on the findings to improve the performance and sustainability of the Islamic capital market in Malaysia. Liquidity in the market should also be enhanced by attracting more domestic and foreign investors as it has been evidenced that liquidity plays a major role in the performance of Shariah-compliant equities and Islamic funds. To ensure that Islamic finance is in line with global priorities in the environmental and social agenda, regulatory agencies ought to encourage additional innovations in the capital market instruments of the Islamic religion, especially in the development of sustainable and responsible investment Sukuk. The increase of product diversification would help draw new groups of investors and promote the importance of ethical finance in Malaysia.

Issuers and fund managers in the market should aim at enhancing the market transparency and disclosure and risk management procedures in order to increase investor confidence. Its participation in greater amounts of retail investor through increased attention to education and awareness schemes should assist in enhancing their participation in the retail investment market by enhancing their awareness on the products of Islamic capital market as well as their risk-reward profile. Lastly, the prospective studies should also broaden the scope of study by adding cross-country analysis, firm-level analysis, and more sophisticated econometric methods to investigate further into how the Islamic capital market instruments perform and how resilient they are. These initiatives would add to the level of academic insight and aid in the evidence-based policymaking within the sphere of Islamic finance.

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